

# Improper Payments

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**2018 CIGIE/GAO Financial Statement Audit Conference**

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# Improper Payments

The IG Community's Role in IPERA

Dr. Brett Baker, NRC Assistant Inspector General for Audit

2018 CIGIE/GAO Financial Statement Audit Conference

# Consistently Adding Value

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- **IG reports assess agency actions on assessing the risk of improper payments, sampling and estimating activities, identifying root causes, developing reduction targets, and making progress toward meeting those targets**
- **IG reports provide feedback to agencies and recommendations for improvements in risk assessment techniques and reporting**
- **IG reports also enable comparisons between agencies**

# Improper Payments Audits and OIG ERM

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- **Improper Payments work dovetails with OIG ERM efforts and supports enhanced stewardship of tax dollars and performance.**
- **Similar to the improper payment audits, a mature enterprise risk management (ERM) program enables OIGs to successfully address challenges due to the ever-changing federal landscape, as well as take advantage of opportunities for improvement, when presented.**
- **Both improper payment audits and OIG ERM efforts are targeted at the enterprise level where risk and opportunity discussions are embedded in strategic planning, resource allocation, processes, and decision making. This leverages their impact.**
- **Both improper payment audits and OIG ERM help enhance organizational performance by more closely linking strategy and objectives to both risk and opportunity.**

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# Improper Payments

Improper Payments and the USDA

Gil Harden, CPA, USDA Assistant Inspector General for Audit

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# USDA High-Risk Programs

Agency	Program Name	FY 2017 IP %
Food and Nutrition Service (FNS)	Supplemental Assistance Program (SNAP)	N/A*
	National School lunch Program (NSLP)	15.30
	School Breakfast Program (SBP)	22.75
	Special Supplemental Nutrition Program for Women, Infant, and Children (WIC)	4.99
	Child and Adult Care Food Program (CACFP)	N/A*
Farm Service Agency/Commodity Credit Corporation (FSA/CCC)	Loan Deficiency Payments (LDP)	1.70
	Livestock Forage Disaster Program (LFP)	3.14
	Noninsured Crop Disaster Assistance Program (NAP)	8.49
Natural Resources Conservation (NRCS)	Farm Security and Rural Investment Act Program (FSRIP)	1.12
Risk Management Agency (RMA)	Federal Crop Insurance (FCIC)	1.96

\* Did not report an improper payment rate

Total of 10 high-risk programs with an average improper payment rate of 10% totaling \$3Billion in improper payments.



# Challenges

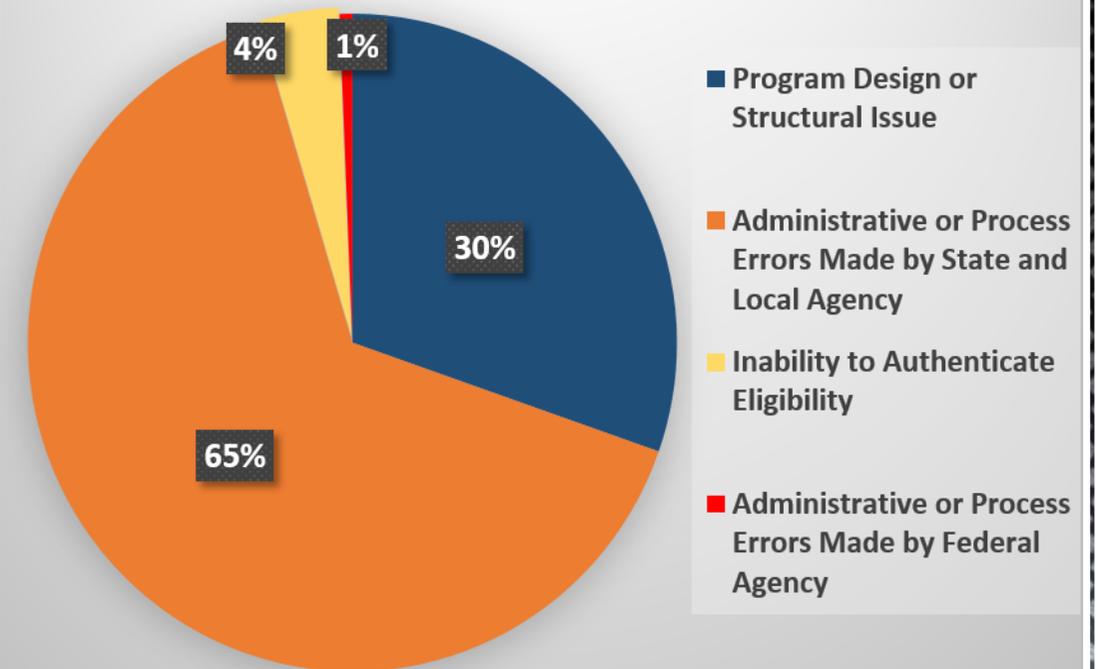


➤ **USDA has consistently been non-compliant with IPERA in the following 3 areas:**

- **Not reporting improper payment estimates (SNAP and CACFP);**
- **Not meeting annual reduction targets (NSLP, SBP, WIC, and NAP); and**
- **Not reporting gross improper payment rate less than 10 percent (NSLP and SBP).**

➤ **USDA programs have highly decentralized structures that rely on State and local organizations and self reporting. Some of these organizations do not have sufficient accountability processes and management controls. In addition, legislation limits USDA's ability to act due to concerns of about potential barriers to participation.**

## Reasons for Improper Payments



# Actions to Improve and Progress



## Actions to Improve:

- **Correct State errors and program methodologies to estimate improper payments.**
- **Seek ways to increase accountability within the limits of legislation to balance the mandated goal of simplifying access to benefits with the goal of reducing improper and erroneous payments.**
- **Continue to seek opportunities to expand data mining resources available to check eligibility.**

## Progress:

- **Reduced from 18 to 10 high-risk programs by requesting OPM relief for programs under the reporting threshold.**
- **FSA's Loan Deficiency Payments and Livestock Forage Disaster Program were non-compliant with IPERA in FY 2016; however, for FY 2017 all requirements were met and considered compliant.**
- **USDA expanded its use of the Do Not Pay portal by onboarding additional agencies to verify eligibility and post payment reviews.**



# OIG Work Performed on SNAP

## ➤ ***FNS Quality Control Process for SNAP Error Rate (September 2015)***

- Overall Finding(s) – FNS’s methodology and guidance for estimating SNAP’s error rate needed improvement and States weakened the quality control process by using third-party consultants and error review committees to mitigate individual quality control-identified errors.
- Progress – To date, FNS implemented actions to close 17 of the 19 recommendations.

## ➤ ***SNAP Administrative Costs (September 2016)***

- Overall Finding(s) – Lack of effective FNS oversight and weaknesses in State and county financial management controls led to inaccurate program financial reporting and questioned costs resulting in \$111 million in unsupported obligations for fiscal year 2014 and \$3.6 million of unallowable cost.
- Progress – To date, FNS implemented actions to close 10 of the 14 recommendations.

## ➤ **Ongoing SNAP work** - We hired an IPA to assess whether States’ are properly administering the program (7 CFR 272), certifying eligible households (7 CFR 273), and monitoring the issuance and use of program benefits (7 CFR 274).

# OIG Work Performed on NSLP and SBP



- ***Healthy, Hunger-Free Kids Act of 2010 (HHFKA)- Controls over Food Service Account Revenue (September 2015)***
  - **Overall Finding(s) –FNS does not have sufficient controls to provide assurance that School Food Authorities revenues are sufficient to ensure that children with free and reduced price meals receive the full value of Federal funds for healthy nutritious meals.**
  - **Progress – FNS has implemented actions to close all of the 4 recommendations.**
  
- ***FNS National School Lunch and School Breakfast Programs (May 2015)***
  - **Overall Finding(s) –FNS, State agencies, and SFAs needed to improve controls to ensure (1) children approved for free and reduced-price meals met the eligibility requirements, and (2) meal claims were supported and accurately reimbursed.**
  - **Progress – FNS has implemented actions to close all of the 10 recommendations.**

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# Improper Payments

VA Improper Payments Risk Assessment

Nick Dahl, VA Deputy Assistant Inspector General For Audits and Evaluations

2018 CIGIE/GAO Financial Statement Audit Conference

# **Risk Assessments are Required if the Program...**

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- **Is new**
- **Has never completed a risk assessment before**
- **Was low or medium risk in a prior year and had a significant change in legislation or funding level**
- **Was low or medium risk in a prior year and had a significant increase in its funding level**
- **Had a change that resulted in a substantial program impact**
- **Was low or medium risk in a prior year (required every three years)**

# Risk Assessment Process

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- **VA utilizes a risk assessment tool for completing risk assessments. These are performed at the program level to ensure that program risks are assessed by officials with knowledge of the program**
  - **Pre-risk assessments**
    - **Determine programs requiring risk assessments**
  - **Risk assessment**
    - **Qualitative and quantitative assessments**
    - **Program overall risk rating (weighted)**
    - **Appropriate approvals**
  - **Reportable Programs**

# Risk Factors for Risk Assessment

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- 1. Whether the program or activity reviewed is new to VA;**
- 2. The complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts;**
- 3. The volume of payments made annually;**
- 4. Whether payments or payment eligibility decisions are made outside of VA;**
- 5. Recent major changes in program funding, authorities, practices, or procedures;**
- 6. Inherent risks of improper payments due to the nature of VA programs or operations;**
- 7. The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate;**
- 8. Significant deficiencies in audit reports of VA, such as the VA OIG or the Government Accountability Office (GAO) report audit findings, or other management findings that might hinder accurate payment certification;**
- 9. Results from prior improper payment work**

# How Does VA Create Its Risk Assessment?

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## ➤ Qualitative Risk Assessment

- **Five focus areas encompassing 28 risks elements**
  - Internal control environment (8 elements)
  - Program history assessment (8 elements)
  - Contracting activities (4 elements)
  - Information systems environment (3 elements)
  - Monitoring Environment (5 elements)
- **Program risk scoring**
  - Risk elements are rated based on a four point scale (yes, mostly, partially, and no)
  - Overall program risk is based on the weighted factor
  - Programs with scores above 3.6 are considered at risk of significant improper payments

# How Does VA Create Its Risk Assessment?

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## ➤ Quantitative Risk Assessment

- Perform for compliance with OMB A-123 requirements on reporting based on monetary thresholds
- Test programs that had prior year improper payment estimates that exceeded OMB high risk program threshold

# VA Case Example

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- **VA OIG reported in 2015 that VA's risk assessment process did not identify contracting as a significant risk factor despite over \$20 billion in vendor payments for FY 2013 according to VA's internal data**
- **In response, VA conducted a review of 12 low-risk programs with disbursements greater than \$1 billion or greater than 90 percent of expenditures made to vendors.**
- **In 2016 VA reported three additional programs would be reported as susceptible to significant improper payments due to contracting risks, and in 2017 VA reported significant improper payments for those programs.**

# VA FY16 Risk Assessment Results

➤ **Source: VA's FY 2016 Agency Financial Report**

FY16 New Programs identified as at Risk of Significant Improper Payments	
Program	Explanation of Assessment of Risk Level
Communications, Utilities, and Other Rent	Probe sample results identified an elevated risk when obtaining utility services greater than the simplified acquisition threshold of \$150,000 where FAR requirements are not always met.
Medical Care Contracts and Agreements	Probe sample results identified an elevated risk where contracts were not always in place when required, payments were not made in the correct amount, and lack of supporting documentation existed.
Prosthetics	During testing of a judgmental sample, VHA identified situations where delivery of a product to the Veteran is made prior to a contract or purchase order in place. Specifically, this situation occurred often for medical/surgical implant devices where the procurement actions for the device were made after the appliance was used and received by the Veteran during surgery. Since the surgical implant was used prior to the order being placed, the payment has been identified as improper causing the program to be susceptible to significant improper payments.
VA Community Care Choice payments made from Veterans Choice Fund	The VA Community Care Choice payments totaled \$15M and are considered susceptible to significant improper payments due to the lack of an available tool to properly determine the correct amount paid.

## VA's Reported Programs

<b>Program Name</b>	<b>IP %</b>	<b>IP \$ in millions</b>
• Beneficiary Travel	25.15%	\$ 223.76
• CHAMPVA	5.61	69.98
• VA Community Care	93.40	5,257.56
• Purchased Long Term Services	100.00	1,890.46
• State Home Per Diem Grants	1.31	15.61
• Supplies and Materials	18.76	479.79
• Prosthetics	59.95	1,448.33
• Medical Care Contracts	16.61	157.31
• Communications, Utilities, Rent	24.42	352.74
• Compensation	0.67	456.17
• Pension	2.63	145.90
• Education – Chapter 33	1.42	166.16
• Hurricane Sandy	0.08	0.03

# Reporting Improper Payments and Corrective Action

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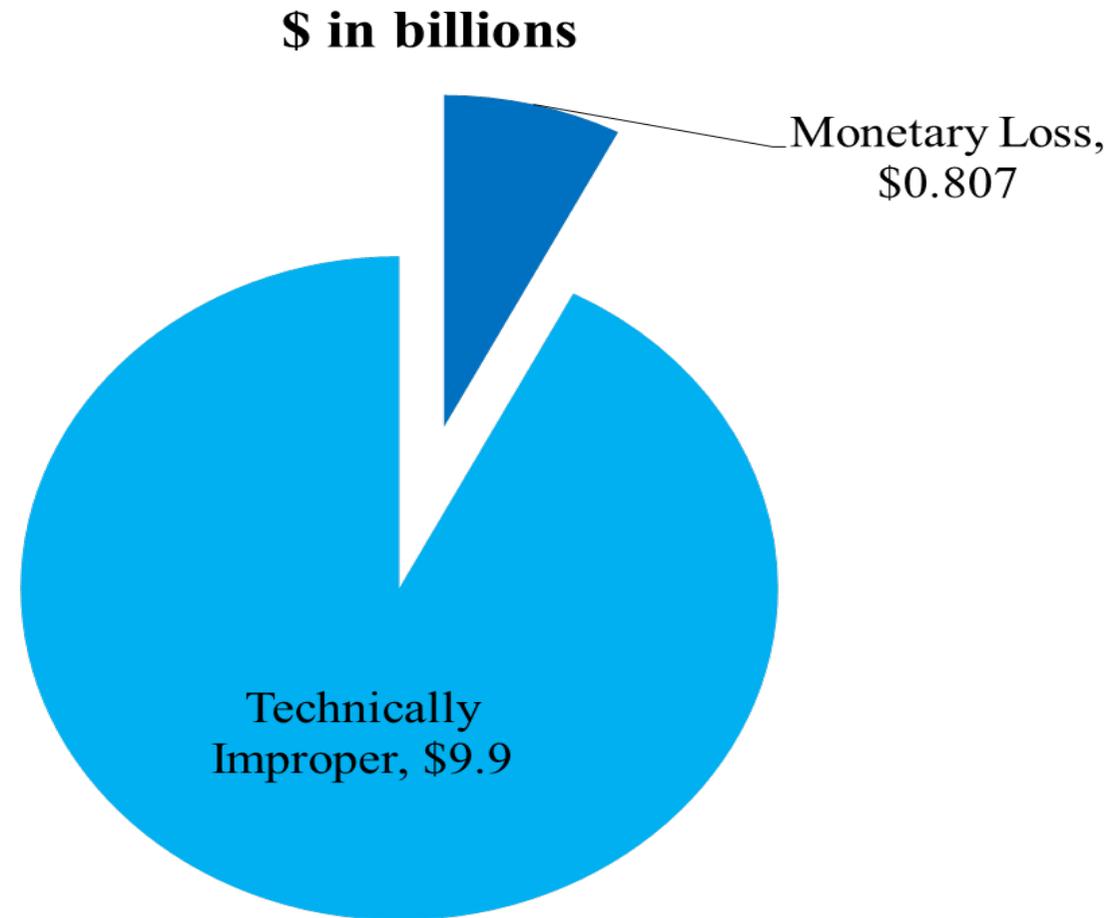
- **According to VA, in 2017, PLTSS and VACC programs identified approximately 56 percent of their improper payments were due to non-compliance with contract requirements.**
- **Improper payment increases for both PLTSS (69.15% to 100%) and VACC (75.86% to 93.40%) were due to ordering officials lacking delegations of authority to order services even though contracts were in place.**
- **In October 2017, VA submitted the Veteran Coordinated Access & Rewarding Experiences (CARE) legislation to Congress. The legislation would include multiple elements in support of reducing improper payments and improving compliance with IPERA.**
- **In the meantime, VA plans to define the process to purchase care consistent with contract requirements.**

# Monetary Loss VS. Technically Improper

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- In August 2017 VA issued a memorandum, Improper Payment: Monetary Loss versus improper payment
- **Monetary Loss to the Government:** a payment made in excess of the amount authorized; to an ineligible recipient; that is a duplicate payment; for an ineligible good or service; for goods or services VA determines were not received; when credit was not exercised for applicable discounts; and on individual authorizations for medical services paid above and beyond the applicable Medicare rates or VA Fee Schedule.
- **Technically Improper Payments:** any payment made where the payment would otherwise be correct if sufficient documentation or evidence was provided to support the payment; out of contract scope; individual Authorizations for medical services paid correctly in accordance with applicable Medicare or VA Fee Schedule rates, but not supported by a contract; or an underpayment occurs.

# Monetary Loss VS. Technically Improper



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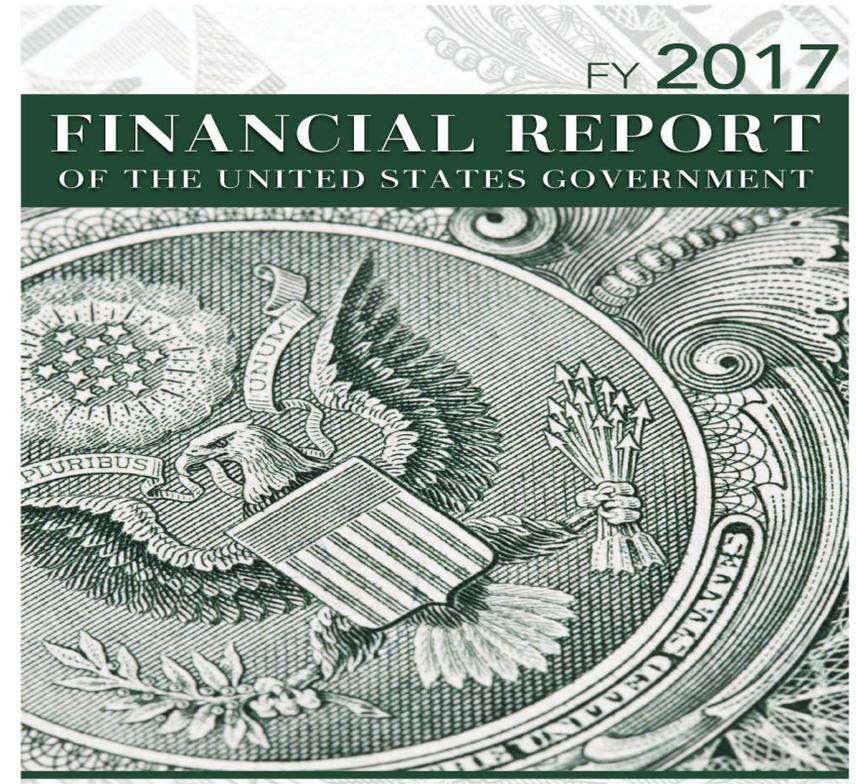
# **Improper Payments**

Improper Payments in the Federal Government

Beryl H. Davis, Director, Financial Management and Assurance GAO  
2018 CIGIE/GAO Financial Statement Audit Conference

# Internal Control Deficiencies Reported by Agency Auditors

- Agency auditors continue to report internal control deficiencies over financial reporting, such as financial system limitations and information system control weaknesses
- Such deficiencies could significantly increase the risk that improper payments may occur and not be detected promptly



# IGs Review 6 Requirements for Agencies to Comply with IPERA

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- ✓ **Publish a fiscal year Performance and Accountability Report (PAR) or Agency Financial Report (AFR); post the report on the agency's website**
- ★ **Conduct a program-specific risk assessment for each program or activity**
- ★ **Publish estimates for all programs and activities deemed susceptible to significant improper payments**
- ✓ **Publish corrective action plans for reducing improper payments**
- ✓ **Publish and meet annual reduction targets for improper payments**
- ✓ **Report a gross improper payment rate of less than 10 percent for each program and activity for which an estimate was published**

# Risk Assessments

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➤ Risk assessments are used by agencies to identify programs and activities that may be susceptible to significant improper payments.

## Agencies are required to:

- Perform risk assessments on all programs and activities at least once every three years
- Consider 9 risk factors, including:

- Whether the program or activity is new to the agency
- The complexity of the program or activity reviewed
- The volume of payments made annually



# Risk Assessments at Selected Agencies

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- In November 2017, GAO reported that from FY 2014 to FY 2016, 6 of 9 selected agencies did not properly design control activities to review all programs and activities<sup>1</sup>
  - 3 agencies did not have documented procedures for conducting risk assessments
    - Department of Commerce, Nuclear Regulatory Commission, and NSF<sup>2</sup>
  - 3 agencies had documented procedures but they were not designed to help ensure all programs and activities were included in the risk assessments
    - Department of Interior, Department of State, and NASA<sup>3</sup>
  - During GAO's audit, 5 of the 6 agencies developed documented procedures to help ensure all programs and activities were included

1. GAO-18-36

2. National Science Foundation

3. National Aeronautics and Space Administration

# Risk Assessments and the Premium Tax Credit

- The premium tax credit (PTC) helps cover the cost of premiums for health plans purchased through state or federally facilitated marketplaces. Centers for Medicare & Medicaid Services (CMS) ensures individuals are eligible to receive health insurance coverage through the marketplaces; Internal Revenue Service (IRS) processes PTC-related amounts on tax returns.
  
- In July 2017, GAO reported that<sup>1</sup>:
  - CMS properly assessed its PTC program as susceptible in FY 2016;
  - IRS did not properly assess the PTC program's susceptibility consistent with improper payment requirements. IRS did not:
    - Consider key types of PTC-related errors
    - Analyze how each risk factor affected the susceptibility of the program to significant improper payments
    - Conclude on whether the PTC program is risk susceptible

# Improper Payment Estimates

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- **All programs and activities assessed as risk susceptible are required to report an annual estimated improper payment amount**
- **Agencies are responsible for designing and documenting their sampling and estimation plan. The plan should:**
  - **Be statistically valid**
  - **Clearly and concisely describe the statistical methods used to design and draw the sample and produce an estimate**
  - **Explain and justify why the proposed methodology is appropriate for the program in question**



# Improper Payment Estimates and the PTC

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- **CMS stated it did not estimate or report the annual amount of improper payments for the PTC program due to the complexity of the measurement methodology development process**
  - **CMS may not be able to report estimates until at least FY 2022**
  - **As a result, Health and Human Services' (HHS's) overall improper payments estimate will continue to be understated**
- **Because of the issues in its risk assessment process, it will remain uncertain whether IRS should estimate the amount of improper PTC payments**



# Risk-Susceptible Programs Not Reporting Estimates in FY 2017

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## Dept. of Agriculture:

- Supplemental Nutrition Assistance Program
- Child and Adult Care Food Program
- 5 Hurricane Sandy Programs

## Dept. of Health and Human Services

- Temporary Assistance for Needy Families
- Advance Premium Tax Credit
- Cost-Sharing Reduction

## Dept. of the Interior:

- 1 Hurricane Sandy Program

## Dept. of Transportation:

- 2 Hurricane Sandy Programs

## General Services: Administration

- 1 Hurricane Sandy Program

## Dept. of Housing and Urban Development:

- Single Family Insurance Claims
- Community Planning and Development Block Grant
- Ginnie Mae - Contractor Payments
- HOME Investments Program
- Rental Housing Assistance Program

## National Aeronautics and Space

## Administration:

- 1 Hurricane Sandy Program

## Small Business Administration:

- 4 Hurricane Sandy Programs

## Dept. of the Treasury:

- Advance Child Tax Credit (ACTC)
- Additional Opportunity Tax Credit
- Premium Tax Credit

# **FY 2017 Financial Report of the US Government: Improper Payments Material Weakness**

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- **The federal government is unable to:**
  - **Determine the full extent to which improper payments occur**
  - **Reasonably assure that appropriate actions are taken to reduce improper payments**
  
- **Until these issues are addressed, the federal government will not have reasonable assurance that the use of federal funds is adequately safeguarded**

